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SUBJECT: IRAN'S BAZAAR STRIKES HIGHLIGHT RESISTANCE TO ECONOMIC

REFORMS

CLASSIFIED BY: Ramin Asgard, Director, Iran Regional Presence
Office, DOS.

REASON: 1.4 (d)

¶1. (U) Summary: Store owners in bazaars in Esfahan, Mashad, Tabriz, and Tehran shut down their businesses in early October to protest President Ahmedinejad's decision to levy a three percent value added tax, which was implemented on Sept 22. According to press reports, merchants feared that the increase of consumer products prices will lead to a decreased demand in an economy already plagued by 30 percent inflation. In response, Ahmedinejad halted the implementation of the law by two months. The government concession to the merchants is a move to placate a power base with traditional, but waning, ties to Iran's clerical structure and influence over internal politics. End summary.

¶2. (U) The strike against the value added tax (VAT) started in Esfahan by gold merchants on October 4 and spread throughout the city. The Iran daily newspaper Etemad reported that Esfahani store owners threatened to close their bank accounts, and pro-Khameini news agency, Yari, said the regime's special forces dispersed a silent demonstration of 500-1,000 merchants and closed the city centre to traffic. On October 9, the protests spread to other Iranian cities, and on October 12, Tehran's market shut completely. A leader of the National Guilds Association, Mohammad Azad, said 'unknown persons' threatened to set fire to shops that did not shut down. Merchants protested the levy for its lack of transparency and a further expansion of the underground economy. One seller explained that a three percent tax levy translates to a 740,000 toman (USD 750) increase per kilogram of gold.

¶3. (U) The strike occurred during President Ahmedinejad's roll-out of his Economic Transformation Plan that he hopes will secure his re-election in 2009. The director of the Iranian National Tax Administration (INTA) Ali-Akbar Arab Mazar said that the VAT will help curb money laundering and will fulfill one of the requirements of World Trade Organization membership. Analysts say, though, that the bazaar protest is a symbol of dissatisfaction with Ahmedinejad's recent economic policies, including gas rationing, the cessation of subsidies to manufacturers, and potential plans to cut energy subsidies. One trader told a news agency, "We should not be happy with anything less than [the] collapse of [Mr.] Ahmadi-Nejad's government."

¶4. (U) Traditionally, the bazaaris have been seen as a political litmus test because of the merchants' close ties to the clergy. Some analysts say that Ahmedinejad's delayed implementation of the policy and directive to his finance minister to find a suitable action plan in collaboration with the unions means bazaaris have maintained a degree of influence over internal

politics. An INTA statement indicates its desire to cooperate with the bazaaris, "the country's tax office hereby announces its readiness to offer the required facilities to implement the law in order to remove the concerns of the respected traders, organizing coordination meetings and providing training and information to the respected officials of the storekeepers' unions."

15. (C) Comment: These VAT protests are the first major strike by merchants since 1979, when they helped overthrow the Shah, and suggest that they still can mobilize and retain some political influence. While Ahmadinejad's economic policies have been flawed, the scaling back of subsidies and efforts to improve tax revenue collection are actually long-overdue positive reforms. Entrenched interests have resisted such measures in the past, and the Iranian government had been reluctant to antagonize powerful constituencies with the inevitable upheaval they would create. Ahmadinejad is continuing such measures, even in the face of such upheavals. But it is important to distinguish protest against economic mismanagement, versus protest against the "transaction costs" of necessary economic reforms. End comment.

ASGARD